AXIS TRUSTEE

ATSL/DEL/18-19/240
May 23, 2018

National Stock Exchange
Exchange Plaza, Plot No. C/1,
G-Block, Bandra Kurla Complex, Bandra (E),
Mumbai, MH

Dear Sir/Madam,

Ref :- Bharti Airtel Limited ("the Company") – Debenture Trustee for Non-Convertible Debentures (NCDs) aggregating Rs. 3000 Crores issued by the Company

We write in our capacity as Debenture Trustees to the NCDs aggregating Rs. 3000 Crores, issued by the Company.

In this connection, we wish to inform you that there has been a revision in Credit Rating of the captioned NCDs issued by the Company from "**CRISIL AA+ (Stable)**" to "**CRISIL AA+ (Negative)**".

A copy of the Credit Rating letter dated May 22, 2018, issued by the Credit Rating Agency in this regard is attached herewith for your reference.

This is for your information and record.

Thanking you.
For **Axis Trustee Services Limited**

Naveen

(Naveen Kumar)
Assistant General Manager

Encl: a/a

NSE/218/24.5.18

Ratings

CRISIL
An S&P Global Company

Rating Rationale

May 22, 2018 | Mumbai

Bharti Airtel Limited

Rating outlook revised to 'Negative', ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.20000 Crore**
Long Term Rating	**CRISIL AA+/Negative (Outlook revised from 'Stable' and rating reaffirmed)**

Rs.3000 Crore Non Convertible Debentures	**CRISIL AA+/Negative (Outlook revised from 'Stable' and rating reaffirmed)**
Rs.272.5 Crore Non Convertible Debentures	**CRISIL AA+/Negative (Outlook revised from 'Stable' and rating reaffirmed)**
Rs.6000 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has revised its rating outlook on the long-term bank facility and non-convertible debentures of Bharti Airtel Limited (Bharti Airtel) to '**Negative**' from 'Stable', and reaffirmed the rating at 'CRISIL AA+'; rating on the commercial paper has been reaffirmed at 'CRISIL A1+'.

CRISIL believes Bharti Airtel's credit risk profile may weaken over the medium term if leverage remains high or operating performance slips further; the latter mainly because the telecom industry is going through intense pricing pressure. The company has, however, been taking steps to correct its leverage in the backdrop of challenging operating environment. The company's ability to execute its de-leveraging plans in a timely manner and sustain operating performance will remain key monitorables over the medium term.

The ratings continue to reflect Bharti Airtel's robust financial flexibility, leadership position in the telecom business in India, and healthy operations in Africa and non-mobility businesses in India. These strengths are partially offset by moderate debt protection metrics, continued competitive intensity, and exposure to regulatory changes and technological risks.

The EBITDA (earnings before interest, taxes, depreciation, and amortisation) declined to Rs 30,448 crore for fiscal 2018 from Rs 35,620 crore in fiscal 2017. Moreover, larger-than-expected capital expenditure (capex) during fiscal 2018 led to an increase in gross debt to EBITDA ratio (leverage) to 3.66 times (net leverage - 3.13 times) as on March 31, 2018, from 3.01 times (net leverage - 2.57 times) as on March 31, 2017. Capex intensity is expected to remain high during fiscal 2019.

Bharti Airtel has taken proactive steps to correct capital structure. It diluted 8.14% of its stake in Bharti Infratel Ltd (Bharti Infratel) in fiscal 2018 for a consideration of Rs 5,895 crore. It also diluted 20% stake in Bharti Telemedia Ltd (DTH Business) for USD 350 million (around Rs 2300 crore). Furthermore, Bharti Airtel has significant de-leveraging plans over the next 12-15 months, including possible dilution of stake in the tower business post-merger of Bharti Infratel and Indus Towers Ltd ('CRISIL AA+/Stable/CRISIL A1+'), and possible listing of the Africa mobility business housed under Bharti Airtel International Netherland BV (BAIN BV), amongst others.

Analytical Approach

For arriving at the ratings, CRISIL has combined the business and financial risk profiles of Bharti Airtel's India, South Asia, and Africa operations, along with those of Bharti Infratel; as these entities are under a common management and have strong business and financial links.

Key Rating Drivers & Detailed Description

Strengths

* **Robust financial flexibility:** Financial flexibility is robust, driven by investments in healthy businesses, including telecom towers (Bharti Infratel) and the Africa mobility business (housed under BAIN BV). Initiatives such as sale of minority stake in Bharti Infratel and its DTH business have helped contain debt. In its filings to stock exchanges, Bharti Airtel has expressed its intent to monetise some of its assets, including possible sale of stake in the tower business and possible listing of operations in Africa to reduce overall debt. Financial flexibility will, therefore, remain strong, underpinned by healthy business investments.

* **Leadership position in the mobile telephone segment in India:** Bharti Airtel leads the domestic mobile telephone segment, backed by a pan-India network. Active wireless subscriber base rose to 31.96 crore as of February 2018 (market share of 32.6%) from 26.32 crore as of February 2017 (market share of 26%). The company had adjusted gross revenue market share of 29.3% for the quarter ended December 31, 2017. It has the largest spectrum among peers, spread across 900 megahertz (MHz), 1800 MHz, 2100 MHz, and 2300 MHz bands; which fortifies its market position and enables it to offer 2G, 3G, and 4G data services across India. Strong brand equity and quick response to changing conditions should help maintain market leadership, despite intense price competition.

* **Healthy operations for Africa and non-mobile businesses in India:** Bharti Airtel has diversified portfolio of businesses including healthy operation in Africa and non-mobile businesses in India. Substantial improvement in Africa operations is backed by increase in EBITDA margin to 36% in the quarter ended March 31, 2018, from 26% during the same period of the previous fiscal. Operating performance of other businesses'Digital TV services and Airtel Business services'also improved, with EBITDA margin increasing to 39% and 41%, respectively, from 36% and 37%. Performance in these businesses should remain steady, thereby partially supporting accrual against pricing pressure in the India mobility business.

Weaknesses

*** Moderate debt protection metrics:** Intense competition in the India mobility business has constrained profitability and cash accrual. Furthermore, significant capex incurred to enhance network capabilities has increased debt (including deferred spectrum payments), leading to subdued debt protection metrics: interest coverage ratio was 3.50 times in fiscal 2018. Also, gross leverage was high at 3.66 times as on March 31, 2018. Liquidity profile of the company, however, remains robust with more than Rs 13,000 crore of cash and liquid investments at March 31, 2018. Initiatives to deleverage and grow its operating profits will continue to be closely monitored.

*** Exposure to regulatory changes and technological risks:** The telecom industry remains susceptible to regulatory and technological changes. New technology could necessitate fresh investments or overhaul of existing networks. The advent of 4G, for instance, has seen operators investing substantially in upgrading infrastructure even before they had made significant returns on investments in 3G.

Telecom is a highly regulated market. Government reduced call termination charges for domestic calls to 6 paise from 14 paise, and for international calls to 30 paise from 53 paise; which affected profitability of large incumbent players. Moreover, presence in multiple geographies exposes the company to regulatory risks. In Africa alone, operations are spread across 14 markets, with the top five countries accounting for 60% of total revenue. Each market has its own regulatory environment and distinct consumer behaviour patterns. Ability to mitigate these risks will remain a key rating sensitivity factor.

*** Continued competitive intensity in the India mobile segment:** With the entry of a new player in September 2016, price competition in the Indian mobility business has intensified. This, along with reduction in call termination charges, led to a decline in Bharti Airtel's average revenue per user (ARPU) to Rs 116 in the quarter ended March 31, 2018, from Rs 188 in the quarter ended September 30, 2016. Therefore, its Indian mobile services revenue declined 18.2% year-on-year during fiscal 2018. However, this was partially offset by a 42.3% increase in voice usage per customer to 670 minutes from 471 minutes and a 450% increase in data usage per customer to 6,585 MBs from 1,331 MBs. Nevertheless, pressure on revenue and operating profits may persist over near to medium term due to promotional offers by the new entrant.

However, changing industry landscape has expedited consolidations, with smaller players exiting the market and others combining businesses. Leveraging the opportunity, Bharti Airtel has grown its revenue market share and spectrum footprint through organic business operations and strategic deals with operators.

Outlook: Negative

CRISIL believes sustenance of operating performance along with successful execution of its deleveraging plans will be critical for maintaining credit risk profile.

Downside scenario

* Further decline in operating profits or delay in execution of deleveraging plans, leading to sustained high leverage
* Larger-than-expected capex due to technological changes or spectrum acquisition affecting financial risk profile

Upside scenario

* Considerable reduction in leverage led by improvement in cash accruals or timely execution of its de-leveraging plans
* Significant improvement in business risk profile, driven by increasing subscriber share and ARPU

About the Company

Bharti Airtel is the third-largest (by number of subscribers) telecom service provider in the world. In India, it is a reputed integrated telecom service operator providing mobile, broadband, fixed-line telephone, and enterprise services. The company offers mobile telephone services in all the 22 telecom circles. It had 32.5 crore subscribers in India as on March 31, 2018, across the mobile, DTH, and enterprise services. Around half of total revenue comes from domestic mobile telephone services.

Bharti Airtel acquired Zain Africa BV in March 2010, and operates in 15 countries in Africa. In fiscal 2017, the company sold its operations in two African countries'Burkina Faso and Sierra Leone-to Orange SA. Bharti Airtel also operates in Sri Lanka. During fiscal 2017, it merged Bangladesh operations with Robi Axiata Ltd, a unit of Axiata Group Berhad, and holds 25% stake in the merged entity.

Key Financial Indicators

As on / for the period ended March 31	Units	2018	2017
Operating Revenue	Rs crore	83,688	95,468
Profit after tax (PAT)	Rs crore	2,184	4,241
PAT margin	%	2.6	4.4
Adjusted debt/adjusted networth	Times	1.42	1.44
Interest coverage	Times	3.50	4.00

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Debenture*	NA	NA	NA	272.5	CRISIL AA+/Negative
INE397D08029	Debenture	13-Mar-18	8.25%	20-Apr-20	1500	CRISIL AA+/Negative
INE397D08037	Debenture	13-Mar-18	8.35%	20-Apr-21	1500	CRISIL AA+/Negative
NA	Commercial paper	NA	NA	7-365 days	6000	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	20000	CRISIL AA+/Negative

**Yet to be placed*

Annexure - Rating History for last 3 Years

	Current			2018 (History)		2017		2016		2015		Start of 2015
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	6000.00	CRISIL A1+	09-03-18	CRISIL A1+	25-10-17	CRISIL A1+	28-12-16	CRISIL A1+	22-04-15	CRISIL A1+	CRISIL A1+
				08-01-18	CRISIL A1+			18-03-16	CRISIL A1+			
Non Convertible Debentures	LT	3000.00 22-05-18	CRISIL AA+/Negative	09-03-18	CRISIL AA+/Stable	25-10-17	CRISIL AA+/Stable	28-12-16	CRISIL AA+/Stable	22-04-15	CRISIL AA+/Stable	CRISIL AA+/Stable
				08-01-18	CRISIL AA+/Stable			18-03-16	CRISIL AA+/Stable			
Fund-based Bank Facilities	LT/ST	20000.00	CRISIL AA+/Negative	09-03-18	CRISIL AA+/Stable	25-10-17	CRISIL AA+/Stable/ CRISIL A1+	28-12-16	CRISIL AA+/Stable/ CRISIL A1+	22-04-15	CRISIL AA+/Stable/ CRISIL A1+	CRISIL AA+/Stable/ CRISIL A1+
				08-01-18	CRISIL AA+/Stable			18-03-16	CRISIL AA+/Stable/ CRISIL A1+			
Non Fund-based Bank Facilities	LT/ST					25-10-17	CRISIL AA+/Stable/ CRISIL A1+	28-12-16	CRISIL AA+/Stable/ CRISIL A1+	22-04-15	CRISIL AA+/Stable/ CRISIL A1+	CRISIL AA+/Stable/ CRISIL A1+
								18-03-16	CRISIL AA+/Stable/ CRISIL A1+			

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Proposed Long Term Bank Loan Facility	20000	CRISIL AA+/Negative	Proposed Long Term Bank Loan Facility	20000	CRISIL AA+/Stable
Total	20000	--	Total	20000	--

Links to related criteria

CRISILs Approach to Financial Ratios

CRISILs Bank Loan Ratings - process, scale and default recognition

Rating criteria for manufaturing and service sector companies

Rating Criteria for Mobile Telephony Services

CRISILs Criteria for Consolidation

CRISILs Criteria for rating short term debt

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